Jersey Funds Association

Accounting update

20 June 2019

EY

Building a better working world

Agenda

1. Recap of last year
2. Adoption of new standards
3. Other accounting issues
4. 2019 New standards to be adopted
5. IFRIC agenda item (IFRS 10)
6. UK GAAP update (FRS 102)
7. Alternative Performance Measures (APMs)
8. IPEV Guidelines update
9. UK Corporate Governance Code amendments
10. Impact of Brexit on the application of IFRS in the UK
11. New IFRS standards

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Recap of last year

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Recap of last year

- IFRS Update
  - Amendments to IAS 7 Statement of Cash Flows
  - Presentation of interest income – amendment to IAS 1
  - 2018 interims – IFRS 9 & 15 impact disclosures
- IFRS 9 Financial Instruments – Classification and measurement
- IFRS 15 Revenue – Investment management and performance fee examples
- New standards
- UK GAAP update (FRS 102) – Triennial review
- UK Corporate Governance update

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Adoption of new standards

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Adoption of new standards – IFRS 9

Impact of adopting IFRS 9

- IFRS 9 “Financial Instruments” was required to be adopted for accounting periods beginning on or after 1 January 2018
- Very few entities early adopted, therefore for the majority of entities with a December balance sheet date, the first set of financial statements impacted were for the year ended 31 December 2018
- For the majority of funds, the impact of adopting IFRS 9 was not particularly significant
- Previously under IAS 39 most financial instruments were carried at FVTPL and they continued to be under IFRS 9
- Where this was the case, the main impact related to updating financial statement disclosures, primarily:
  - Explanation of the adoption of new accounting standards
  - Updating accounting policies for IFRS 9 terminology
  - Updating risk management disclosures (primarily credit risk)

Adoption of new standards – IFRS 9

Explanation of the adoption of IFRS 9

Retrospective application vs restatement of comparatives

- There was some confusion over the difference between the meaning of retrospective application and restatement of comparatives

Retrospective application

- Generally retrospective application of an accounting standard would mean that for each item impacted, they should be accounted for as if the standard had always been applied
- IFRS 9 required retrospective application to all financial instruments held at the date of initial application of the standard
  - For an entity with a 31 December 2018 balance sheet date, all financial instruments held at 1 January 2018 must be reclassified under IFRS 9
  - Note: certain reliefs are available on full retrospective application, e.g. using the fair value as deemed cost when a financial instrument was reclassified from FVTPL under IAS 39 to amortised cost under IFRS 9
- Effectively retrospective application means for each financial instrument in scope they were required to be classified and remeasured under IFRS 9 as if IFRS 9 had always applied

Adoption of new standards – IFRS 9
Explanation of the adoption of IFRS 9 (cont.)

Restatement of comparatives

- Although IFRS 9 required retrospective application for classification and measurement, this did not automatically mean comparatives needed amendment
- IFRS 9 provides an option on whether to restate comparatives or not
- The majority of funds chose not to restate comparatives

Impact

- When an entity explains the adoption of IFRS 9, it should include both:
  - IFRS 9 had been adopted for all financial instruments at the date of transition; and
  - Whether comparatives had been restated or not
- Where comparatives were not restated an explanation of the prior period IAS 39 accounting policies was necessary
  - One way of doing this is to have two sets of accounting policies (although very few funds did this)
  - Alternatively some funds included it in the transition explanation from IAS 39 to IFRS 9
  - Finally some funds made a statement that comparatives would have been restated if any measurement changes were necessary

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Adoption of new standards – IFRS 9

Explanation of the adoption of IFRS 9 (cont.)

Explanation of transition from IAS 39 to IFRS 9

- There are a number of detailed transition disclosure requirements on adoption of IFRS 9, included in IFRS 7 "Financial Instruments: Disclosures" (refer paragraphs 42I to 42S)
- One such example was to explain the classification category of each financial instrument under IAS 39 compared to IFRS 9
  - Previously under IAS 39 funds generally classified investments as designated at FVTPL as the group of assets is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy
  - However under IFRS 9, financial instruments are classified based on:
    - the entity's business model for managing the financial assets; and
    - the contractual cash flow characteristics of the financial asset.
- There were a several different ways this requirement was met;
  - in a narrative form (refer JZ Capital Partners Limited); or
  - in a tabular form (refer Aberdeen Asian Income Fund Limited); or
  - included in the full IFRS 9 and IAS 39 accounting policies

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Adoption of new standards – IFRS 9
Explanation of the adoption of IFRS 9 (cont.)

Explanation of transition in narrative format

- JZ Capital Partners Limited – February 2019 accounts

Based on that assessment the Company continues to classify and measure its financial instruments under IFRS 9 as follows:

i. Financial assets previously held at fair value are managed on a fair value basis in accordance with a documented investment strategy and continue to be measured at fair value. These financial assets are also not expected to meet the SPPI criterion and accordingly, these financial assets will still be classified and measured at FVTPL.

ii. Financial assets previously classified as loans and receivables are held to collect contractual cash flows and give rise to cash flows representing solely payment of principal and interest ("SPPI"). Thus, such instruments continue to be measured at amortised cost.

iii. Investments in subsidiaries and associates are measured at fair value in accordance with IFRS 10 and IAS 28, respectively, as the Company is an investment entity.

iv. The classification of financial liabilities under IFRS 9 remains broadly the same as under IAS 39. The main impact on measurement from the classification of liabilities under IFRS 9 relates to the element of gains or losses for financial liabilities designated as at FVTPL attributable to changes in credit risk. IFRS 9 requires that such element be recognised in other comprehensive income, unless this treatment creates or enlarges an accounting mismatch in profit or loss, in which case, all gains and losses on that liability (including the effects of changes in credit risk) should be presented in profit or loss.

Adoption of new standards – IFRS 9

Explanation of the adoption of IFRS 9 (cont.)

Explanation of transition in tabular format

- Aberdeen Asian Income Fund Limited – December 2018 accounts

Financial assets

1 January 2018	IAS 39 classification	IAS 39 measurement £'000	IFRS 9 classification	IFRS 9 measurement £'000
Equity instruments	Designated at FVTPL	448,264	FVTPL	448,264
Debt instruments	Designated at FVTPL	13,368	FVTPL	13,368
Trade and other receivables	Loans and receivables	1,342	Amortised cost	1,342
Cash and cash equivalents	Loans and receivables	4,872	Amortised cost	4,872

Financial liabilities

1 January 2018	IAS 39 classification	IAS 39 measurement £'000	IFRS 9 classification	IFRS 9 measurement £'000
Bank loans	Amortised cost	35,386	Amortised cost	35,386
Trade and other payables	Other financial liabilities	591	Amortised cost	591

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Adoption of new standards – IFRS 9

Updating accounting policies for IFRS 9 terminology

Updating accounting policies

- There ended up being some repetition between the explanation of changes due to IFRS 9 and accounting policies for specific financial instruments
- Another problematic area was ensuring all accounting policies relating to financial instruments were updated for IFRS 9 terminology. Primarily:
  - Financial assets classified into held for trading, available-for-sale, loans and receivable etc.
  - Investments at FVTPL, still referring to being designated at FVTPL, as management measure and evaluate performance on a fair value basis
  - Receivables, still referring to impairment being calculated where objective evidence exists … (which is the IAS 39 incurred loss model)
- There also tended to be some overlap in accounting policies e.g. explaining financial assets at amortised cost less impairment under both Financial instruments and Other receivables accounting policies

Adoption of new standards – IFRS 9
Updating risk management disclosures

Updating risk management disclosures

- As a result of the adoption of IFRS 9, the were a number of amendments to the IFRS 7 risk management disclosures
- Most significant changes were in relation to the credit risk disclosures
- There are now two sets of disclosures, those for financial instruments subject to the IFRS 9 impairment model (e.g. financial assets at amortised cost, such as cash and cash equivalent and other receivables) and those that are not (e.g. financial assets at FVTPL)

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Adoption of new standards – IFRS 9
Updating risk management disclosures (cont.)

Credit risk disclosures for financial assets subject to the impairment model

- IFRS 7.35F to 35N have a comprehensive list of disclosures
- These requirements are still applicable where applying the simplified approach
- Some of the key disclosures are as follows:
  - An entity shall explain its credit risk management practices and how they relate to the recognition and measurement of expected credit losses [IFRS 7.35F]
  - An entity shall explain the inputs, assumptions and estimation techniques used [IFRS 7.35G]
  - A reconciliation from the opening balance to the closing balance of the loss allowance by class of financial asset [IFRS 7.35H]
  - An entity shall disclose, by credit risk rating grades, the gross carrying amount of financial assets and the exposure to credit risk [IFRS 7.35M]
  - When applying the simplified approach the information provided in accordance with paragraph 35M may be based on a provision matrix [IFRS 7.35N]

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Adoption of new standards – IFRS 9
Updating risk management disclosures (cont.)

Credit risk disclosures for financial assets <u>not</u> subject to the impairment model

- IFRS 7.36 (a) and (b) are as follows:
  - The amount that best represents its maximum exposure to credit risk at the end of the reporting period; this disclosure is not required for financial instruments whose carrying amount best represents the maximum exposure to credit risk. [IFRS 7.36 (a)]
  - A description of collateral held as security and other credit enhancements [IFRS 7.36 (b)]
- Note: credit quality information (e.g. credit ratings) should still be provided under the general requirements:
  - Information about an entity's credit risk exposure including significant credit risk concentrations [IFRS 7.35B (c)]

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Adoption of new standards – IFRS 15

Impact of adopting IFRS 15

- IFRS 15 "Revenue from Contracts with Customers" was required to be adopted for accounting periods beginning on or after 1 January 2018
- Similarly with IFRS 9, the impact of adopting IFRS 15 for most funds was not significant
- This was because any gains/losses on financial instruments are outside the scope of IFRS 15
    - For investment funds holding financial assets (i.e. investments and/or derivatives such as foreign currency contracts), all income (dividends, interest etc.) and any gains or losses generated on such financial assets are subject to IFRS 9 requirements rather than IFRS 15

Adoption of new standards – IFRS 15 (cont.)

Impact of adopting IFRS 15

- It was slightly more complicated for real estate funds holding investment property and/or inventory
- Generally such entities could have the following types of income:

Within scope of IFRS 15	Not within scope of IFRS 15
Sale of real estate inventory	Rental income (IAS 17/IFRS 16)
Service fee income	Interest / dividend income (IFRS 9)
	FV gains on Investment Property (IAS 40)

- Prior to the adoption of IFRS 15, it was not uncommon in the accounting policies note for all of the above to be included under a heading "Revenue"
- With the adoption of IFRS 15, accounting policies for those items in scope of IFRS 15 were required to be updated for IFRS 15 terminology
- Although IFRS 15 also included more extensive disclosure requirements, most of these are only relevant when an real estate entity sold a property

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Other accounting issues

Other accounting issues
Rolling loan facilities

Classification – current or non-current?

- A number of investment funds make use of borrowings by way of a rolling 3 month loan facility, typically with a termination date of two years
- The loan drawn down is repayable in 3 months, but the investment fund can extend for a further period of three months and so on, until the termination date
- Funds use such facilities for different purposes:
  - Some use the facility for short term liquidity purposes (e.g. private equity funds may use the facility to acquire an investment, before issuing draw down notice to investors)
  - Others use the facility as a tool to leverage investment exposure in the medium to long term (e.g. investment trusts listed on the LSE)
- The question arises where the termination date of the facility has more than 12 months remaining, should the loan be classified as current or non-current?

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Other accounting issues
Rolling loan facilities (cont.)

Classification – current or non-current?

- IAS 1.73 "Presentation of Financial Statements" states:
  - If an entity expects, and has the discretion, to refinance or roll over an obligation for at least twelve months after the reporting period under an existing loan facility, it classifies the obligation as non-current, even if it would otherwise be due within a shorter period
- FRS 102 has a similar requirement
- Therefore whether the loan should be classified as current or non–current depends on how the loan is expected to be repaid
  - In the private equity fund where the balance is drawn down and repaid in three months for specific transactions the loan should be classified as current
  - In the investment trust scenario where the loan is drawn down and the principal only repaid at the termination date of the facility the loan should be classified as non-current
- If the loan is classified as non-current in the current year, it will have to be reclassified to current in the following year, unless a term extension of a new facility is finalised prior to balance sheet date
  - If it is finalised post year-end, it is a non adjusting post balance sheet event

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Other accounting issues
Finance costs on loans

How should finance costs on loans be accounted for, when being used to finance construction of a qualifying asset?

- In certain circumstances a real estate fund will acquire land with the intention to construct an investment property
- Where the fund makes use of loan financing, borrowing costs incurred for construction of investment property may be capitalised (IAS 23 or FRS 102.25)
- Where the fund chooses to capitalise borrowing costs, and it refinances a loan, how should any "loan refinancing costs" be accounted for?
  - Can they be immediately capitalised as borrowing costs to investment property?
- Ordinarily loans payable are carried at amortised cost using the effective interest rate (EIR) method
- Where a loan is refinanced any refinancing costs should be capitalised against the loan (IFRS 9.5.1.1 and FRS 102.11.13)
- This results in the refinancing costs being spread on an EIR basis over the remaining life of the loan

Other accounting issues
Finance costs on loans (cont.)

Example

- 1/1/201X – loan borrowings from ABC of CU 2m at 10% paid quarterly
- 30/9/201X – loan refinanced with DEF for CU 2m over two years at 8% paid quarterly
  - Incurs loan arrangement fees of CU 50k
- Journal entries on initial recognition:
  - Dr Loans payable – ABC 2m / Cr Loans payable – DEF (2m)
  - Dr Loans payable – DEF 50k / Cr Cash (50k)
- Journal entries at 31/12/201X (EIR calculated as 2.35% per quarter)
  - Dr Loans payable – DEF 40k / Cr Cash 40k (CU 2m x 8% x 3/12)
  - Dr Investment Property 45.8k / Cr Loans payable – DEF 45.8k (CU 1,950k x 2.35%)
- Loan balance at 31/12/201X would be 1,955.8k (1,950k – 40k + 45.8k)

2019 New standards to be adopted

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2019 New standards to be adopted – IFRS 16

Recap

- Effective 1 January 2019 (early adoption permitted, but not before IFRS 15)
- Requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17
  - Two exceptions relate to low-value leases and short-term leases
- Lessor accounting is substantially unchanged from IAS 17, and lessors will continue to classify all leases using the same classification principles in IAS 17 and distinguish between operating and finance leases
  - One exception with respect to subleases: intermediate lessor is required to classify the sublease by reference to the right-of-use asset arising from the head lease, rather than by reference to the underlying asset
- IFRS 16 also requires more extensive disclosures than under IAS 17
- Real estate fund impact? Minimal due to mostly lessor accounting being required
- However, greater impact for fund managers and other ‘operating’ entities who are lessees

2019 New standards to be adopted – IFRS 16

Example of reconciliation of the minimum lease payments amount disclosure requirement by IAS 17 to the lease liabilities recognised per IFRS 16 (1st quarter 2019 unaudited results of Royal Dutch Shell Plc)

- No fund specific examples that we are aware of at this stage, but this is an illustration of the types of reconciling items that could be required and what it may look like

LEASE LIABILITIES RECONCILIATION

	$ million
Undiscounted future minimum lease payments under operating leases at December 31, 2018	**24,219**
Impact of discounting[1]	(5,167)
Leases not yet commenced at January 1, 2019	(2,586)
Short-term leases[2]	(277)
Long-term leases expiring before December 31, 2019[2]	(192)
Other reconciling items (net)	40
Additional lease liability at January 1, 2019	**16,037**
Finance lease liability at December 31, 2018	14,026
Total lease liability at January 1, 2019	**30,063**

1. Under the modified retrospective transition method, lease payments were discounted at January 1, 2019 using an incremental borrowing rate representing the rate of interest that the entity within Shell that entered into the lease would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The incremental borrowing rate applied to each lease was determined taking into account the risk-free rate, adjusted for factors such as the credit rating of the contracting entity and the terms and conditions of the lease. The weighted average incremental borrowing rate applied by Shell upon transition was 7.2%.
2. Shell has applied the practical expedient to classify leases for which the lease term ends within 12 months of the date of initial application of IFRS 16 as short-term leases. Shell has also applied the recognition exemption for short-term leases.

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IFRIC agenda item (IFRS 10)

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IFRIC agenda item (IFRS 10)

Sale of a single asset entity containing real estate (IFRS 10)

- The following issue was discussed in the IFRIC meeting held last week, which is relevant to real estate funds
- The fact pattern was:
  - Entity builds and sells real estate as part of its ordinary activities
  - On acquisition the entity establishes separate SPVs to hold each real estate asset
  - Entity only has the real estate asset and any related deferred tax
  - Each SPV considered to be a subsidiary under IFRS 10
  - Real estate asset sold via sale of 100% shares in SPV (at which point control is lost under IFRS 10)
- The question raised is should the sale be treated as a sale of the real estate asset (under IFRS 15) or the loss of control of a subsidiary (under IFRS 10)?
- As part of the outreach process, it was noted there was mixed practice, some apply IFRS 15 and some apply IFRS 10

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IFRIC agenda item (IFRS 10) (cont.)

Sale of a single asset entity containing real estate (IFRS 10)

- Initial analysis of IFRIC:
  - IFRS 15.5 c) scopes out contracts within the scope of IFRS 9, IFRS 10, IFRS 11, IAS 27 and IAS 28
  - IFRS 10.25 outlines accounting where a parent loses control of a subsidiary
- Therefore an entity should apply IFRS 10 to such transactions
- There was a follow on question as to whether you could present the resulting gain or loss required by IFRS 10.25 c) on a gross basis or a net basis
- IFRS 10.B98 d) requires the parent that loses control to:
  - Recognise any resulting difference as a gain or loss in profit or loss …
- The reason for the question centred on the word "recognise" rather than "present", however initial IFRIC analysis is that the net amount should be presented
- It was proposed not to add this matter to the standard-setting agenda, but to publish a tentative agenda decision

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UK GAAP update (FRS 102)

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UK GAAP update (FRS 102)
First triennial review

Key amendments to FRS 102 from the "Triennial review"

- Effective for accounting periods commencing on or after 1 January 2019
- Covered last year, therefore just a reminder of key fund related amendments, refer to last year's slides for more details
- Low interest loans from directors who are also shareholders of a small entity
  - Exception from requirement to present value low interest loans from a director who is also a shareholder made to a small entity is retained [note: FRS 102.1.15A withdrawn, and replaced with FRS 102.11.13A – 11.13C].
  - Only applies to loans from a director/shareholder (i.e. does not apply to loans receivable).
- Investment property – removes the ability to measure on a cost basis when under construction
- Financial instruments (numerous amendments)
- Financial Institution definition
- Introduction of net debt reconciliation for Cash Flow Statements
- Additional disclosures for special purpose entities

UK GAAP update (FRS 102)
Financial Instruments

Classification and measurement accounting policy choice

- FRS 102.11.2 provides an accounting policy choice in relation to recognition and measurement to apply:
  - Section 11 and Section 12 in full;
  - IAS 39; or
  - IFRS 9
- This accounting policy option continues to exist despite IAS 39 being withdrawn under full IFRS
- Under historic UK GAAP most funds would have applied FRS 26, and when they transitioned to FRS 102, would have moved to IAS 39 (which was what FRS 26 was based on)
- Accordingly some of these funds looked at transitioning to IFRS 9 in the 2018 FRS 102 financial statements

UK GAAP update (FRS 102)
Financial Instruments (cont.)

FRS 102.10.8, states:

- An entity shall change an accounting policy only if the change:
  a) is required by an FRS or FRC Abstract; or
  b) results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the entity's financial position, financial performance or cash flows.
- As the accounting policy choice to use IAS 39 continues to exist, a fund is not required to transition to IFRS 9 when applying FRS 102
- Therefore a fund is only able to change where the requirements of FRS 102.10.8 (b) are met
  - As noted earlier, the impact of moving from IAS 39 to IFRS 9 for funds was not significant in most cases, therefore it is difficult to see why moving to IFRS 9 would provide more reliable and relevant information
- Careful consideration should be given when looking at changing to IFRS 9

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Alternative Performance Measures (APMs)

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Alternative Performance Measures (APMs)

ESMA Guidance

- Applies to entities whose securities are admitted to trading on an EU regulated market
- Applicable to disclosures in regulated information and prospectuses
  - Examples of “regulated information” include the front sections of annual reports and half-yearly accounts
- Definition of an APM:
  - For the purpose of these guidelines an APM is understood as a financial measure of historical or future financial performance, financial position, or cash flows, other than a financial measure defined or specified in the applicable financial reporting framework.
- Derogation for APMs included within the financial statements
- Common examples of APMs for funds
  - NAV per Share, Total Return (adjusted for dividends), Ongoing Charges
- Where this is disclosed on the balance sheet (included within the financial statements), it would not be required to comply with APM guidance

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Alternative Performance Measures (APMs) (cont.)

ESMA Guidance

- Reporting requirements for APMs:
  - A reconciliation of the APM to the most directly reconcilable line item, subtotal or total presented in the financial statements (including comparatives)
  - Explain the relevance of APMs in order to allow users to understand their relevance and reliability
  - APMs should not be displayed with more prominence, emphasis or authority than measures directly stemming from financial statements.
  - The definition and calculation of an APM should be consistent over time (any changes require explanation)
- FRC released a "FAQ" document, providing additional guidance for directors, and explaining how compliance will be monitored / implemented in the UK

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Alternative Performance Measures (APMs) (cont.)

ESMA Guidance

- As noted, where a fund presents NAV per share on the face of the balance sheet or in a note to the financial statements, it is not required to comply with APM guidance, however:
  - When presenting financial statements under IFRS or FRS 102 comparatives would be required;
  - Funds would generally disclose how the amount is calculated (particularly in multi-class funds)
- A number of funds disclose Total Return and Ongoing Charges in the front section only, both of which would generally meet the definition of an APM
  - The difficulty with these measures is calculating the numerator is possible, however it is very difficult to determine the denominator
  - In the case of Total Return, the denominator of average number of shares is adjusted as though the dividend is reinvested
  - In this case it is possible for the explanation to also meet the requirements of the reconciliation, provided the disclosure is sufficiently clear

Alternative Performance Measures (APMs) (cont.)

Example of the Total Return on Net Assets APM disclosure from JPMorgan Global Convertibles Income Fund Limited Annual Report & Financial Statements for the year ended 30th June 2018

Return on Net Assets (APM)

Total return on net asset value ('NAV') per share, on a bid value to bid value basis, assuming that all dividends paid out by the Company were reinvested, into the shares of the Company at the NAV per share at the time the shares were quoted ex-dividend.

Total return calculation	Page	2018	2017	
Opening cum-income NAV per share as at 30th June (p)	5	100.9	96.6	(a)
Closing cum-income NAV per share as at 30th June (p)	5	97.5	100.9	(b)
Total dividend adjustment factor[2]		1.045961	1.045940	(c)
Adjusted closing cum-income NAV per shae (p) (d = b x c)		102.0	105.5	(d)
Total return on net assets (e = d / a - 1)		**1.1%**	**9.2%**	**(e)**

[1] The dividend adjustment factor is calculated on the assumption that the dividends paid out by the Company are reinvested into the shares of the Company at the cum-income NAV at the ex-dividend date.

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IPEV Guidelines update

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IPEV Guidelines update

- In October 2018, the IPEV Board consulted on amendments to the 2015 Guidelines
- Section I now presents the 2018 Guidelines (boxed and shaded) with explanatory comments, while the full Guidelines can be found in Appendix 1
- In addition, a number of enhancements have been made including:
  - Clarifying that using the Price of a Recent Investment should not be the default valuation technique. Fair value may equal the Price of a Recent Investment, however this assessment will require careful consideration of the facts and circumstances
    - Reinforce the premise that fair value must be estimated at each Measurement Date as required by the relevant accounting standards
  - Replacing "Private Equity" with the term "Private Capital" to prevent misunderstanding and highlight applicability to various types of private investments in debt and equity by various types of investment companies/entities
  - Increasing detail on valuation considerations for early-stage investments
  - Further information on valuing debt as an investment

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UK Corporate Governance Code amendments

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UK Corporate Governance Code amendments

UK Corporate Governance Code amendments

- FRC issued proposed revisions to the Code in December 2017
- New Code was issued in July 2018
- Effective date, periods commencing on or after 1 January 2019

Independence requirements of directors

- As noted in the prior year, the draft Code provision in relation to independence had removed the ability to still consider a non-executive director independent after nine years
  - Proposed Code provision 15 stated: "Individual non-executive directors … should not be considered independent … if any one of them " …Has served on the board for more than nine years …"
- However in the final Code this proposal was updated such that where a non-executive director has served for more than nine years, that fact should be considered in assessing independence (rather than automatically considered non-independent as per the draft Code)
  - Similar to the current 2016 Code, an explanation should still be provided as to why the Board consider such non-executive directors to be independent

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UK Corporate Governance Code amendments (cont.)

Requirements to make a "Companies Act 2006, Section 172 Statement"

- The revised Code requires companies to disclose how the interests of other key stakeholders and the matters set out in section 172 of the Companies Act 2006 have been considered in board discussions and influenced the board's decision-making.
  - Section 172 require consideration of employees, suppliers, impact on the environment etc. (in addition to the company's shareholders)

AIC Corporate Governance Code amendments

- AIC Code was updated for the changes in the UK Code and was issued in February 2019
- Broadly the same, although a couple of differences of note as follows:
  - The Chairman is able to serve as chair for more than nine years, but the Board must determine and disclose a policy on the tenure of the chair (UK Code requires Chair to step down after nine years)
  - The Chairman is able to serve on the Audit Committee, although prohibited from being the Chair (UK Code requires the Chair not serve on the Audit Committee)

Impact of Brexit on the application of IFRS in the UK

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Impact of Brexit on the application of IFRS in the UK

- In the event of BREXIT, one of the many matters to be decided is how IFRSs will in future be required to be applied in the UK
- The most likely outcome is UK-endorsed IFRS
- Questions to be considered?
  - Transition rules? Pragmatically it could be that UK IFRS is only applied in UK for financial years beginning on or after exit day
  - To what extent are potential changes in reporting standards reflected in the company's risk management reviews and discussions?
- Channel Island (CI) entities with an AIM listing
  - Currently CI entities are included in the definition of an "EEA country" and are required to apply EU IFRS
  - Proposed change in the AIM Rules as a result of Brexit, means that CI entities will be included in the definition of the "UK" and will be required to apply (proposed) UK IFRS

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New IFRS standards

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New IFRS standards
Overview of new pronouncements

New pronouncements effective for periods beginning on or after 1 January 2019, 2020 and 2021		
	2019	2021
IFRS 16 Leases	✓	
IFRS 17 Insurance Contracts		✓
IFRIC Interpretation 23 Uncertainty over Income Tax Treatments	✓	
Prepayment Features with Negative Compensation – Amendments to IFRS 9	✓	
Long-term Interests in Associates and Joint Ventures – Amendments to IAS 28	✓	
Plan Amendment, Curtailment or Settlement – Amendments to IAS 19	✓	
IFRS 3 Business Combinations – Previously held Interests in a joint operation	✓	
IFRS 11 Joint Arrangements – Previously held Interests in a joint operation	✓	

New IFRS standards
Overview of new pronouncements (cont.)

New pronouncements effective for periods beginning on or after 1 January 2019, 2020 and 2021		
	2019	2020
IAS 12 Income Taxes – Income tax consequences of payments on financial instruments classified as equity	✓	
IAS 23 Borrowing Costs – Borrowing costs eligible for capitalisation	✓	
Definition of a Business – Amendments to IFRS 3		✓
Definition of Material – Amendments to IAS 1 and IAS 8		✓
The Conceptual Framework for Financial Reporting		✓
Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28 *effective date postponed		

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IFRS EU Endorsement status
Recently adopted

Standard/interpretation/amendment	Endorsement date
Annual Improvements to IFRS Standards 2015-2017 Cycle (issued on 12 December 2017)	15 March 2019
Amendments to IAS 19: Plan Amendment, Curtailment or Settlement (issued on 7 February 2018)	14 March 2019
Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures (issued on 12 October 2017)	11 February 2019
IFRIC 23 Uncertainty over Income Tax Treatments (issued on 7 June 2017)	24 October 2018

IFRS EU Endorsement status
Not yet adopted

Standard/interpretation/amendment	Expected endorsement date
IFRS 17 Insurance Contracts (issued on 18 May 2017)	?
Amendments to References to the Conceptual Framework in IFRS Standards (issued on 29 March 2018)	2019
Amendment to IFRS 3 Business Combinations (issued on 22 October 2018)	2019
Amendments to IAS 1 and IAS 8: Definition of Material (issued on 31 October 2018)	2019

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Thank you

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